

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from NOVA School of Business and Economics.

The Heiress Solution: A tale of family business continuity



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Abstract:

This Work Project is an analytical case, comprehensively based on the real story of a French Family Business. Throughout the case, the reader will retrace over 20 years of business management, ownership and interpersonal dynamics inherent to family businesses. The story depicts how Jean and Odette Falck started their career in hospitality management, to further acquire a share in a hotel and integrate their daughter, Martine, as part of the continuity plan for the business. Eventually, the main objective of this project is to add to an additional practical, real-life, support work to the empirical studies and theories on succession in the family business field.

Keywords: *Family Business, Succession, key nonfamily managers*

Acknowledgements:

I would like to dedicate this work project to my great-grandparents, Odette and Jean, and Bernard “Victor” Vignau, as well as my mother Florence and evidently my grandmother, Martine, who were not only the main characters of this case, but a daily inspiration for me as an individual.

Introduction

August 1990: Jean Falck slowly paced back and forth in his daughter's office, the one that used to be his: "This is the chance of a lifetime! He knows the ins and outs of the business, he knows you, and he is reliable and loyal. I told you before, your mother and I are worried about you going into this alone, it has already been so demanding with one hotel, let alone with two! And the new baby coming soon! Your mother and I are not actively involved, even though we will always support you, but we are retired now; we've already withdrawn ourselves almost entirely, we are simply here to advise you. He said calmly to Martine. The two often had meetings like this, in this very office, over the past 16 years, it's how they would take governing decisions about the business, which they would then run by Odette, Martine's mother, for her final stamp of approval.

Martine was considering the letter being discussed, while her father was gazing at her straight in the eye. She always valued her father's opinion, and they agreed on most things, both in business and family matters, yet she wondered if Victor, an ex-employee of her parents, would consider joining her in this risky venture, which was not the reason he'd written to her. However, she knew managing two hotels on her own was nearly impossible. On top of that, her 18-year-old daughter was about to give birth to a baby girl, which meant even less time for Martine to focus on the business.

"You know what? You're right. I know what I have to do. I will see you at home tonight." Martine said as she kissed her father goodbye. She took a deep breath, got up and walked around her large oak desk to reach her personal safe. She opened it, withdrew 500 Francs, placed them in an envelope, sat back down and started writing the note that would be attached as her answer:

'Victor, get a train ticket, a haircut, and get here a.s.a.p. We have a lot of work to do.

M.F'

'She licked the back of the envelope, frowning from the sour taste of glue. A minute later, Martine's heels were quickly clapping on the concrete of the Parisian sidewalk as she rushed to the post office.

Background

Fourteen years after managing different Parisian hotels, Odette and Jean Falck felt they had somewhat achieved one of their entrepreneurial goals, one they formulated when they left the South of France. In 1972, the couple had acquired their equal 33% share in the Tessuc hotel, in joint ownership with A. Messai and I. Drissi. This partnership entailed the Falck couple would manage the property, being the only ones with hospitality experience, along with Messai who specialized in real estate, while Drissi would be a passive owner. Two years later, their only daughter, Martine joined them to manage the Tessuc. Over the span of the 19 years of ownership, the family had transformed the Tessuc from a failing and shabby hotel to a busy and profitable business. However, due to a difficult partnership with Messai, along with upcoming and business-threatening urban developments, the family ensured the continuity of their legacy by acquiring the Noailles hotel in 1989, with a different ownership structure.

A couple of go-getters

Odette and Jean Falck had married three months after meeting in 1945. Back then, she was a post office clerk in a small Southern French village and he was a German- Jew who returned to his deported parents' secondary home. From then, Jean graduated from the hotel school in Nice in 1947 and was forced to take a number of jobs to provide for his family, ranging from agriculture to taxi driver. Odette gave birth to their only child, Martine, in May of 1948. While his wife was a hard- worker from a very young age, Jean had rather entrepreneurial ambitions. His risk-loving personality was looking to build a venture, as a mean to sustain his family. Taking a leap of faith, considering the family's situation, Jean contracted a loan to acquire a truck, in order to work as a sub-contractor for government's military weapon transportation; a venture which, literally, ended in a side road ditch, bursting into flames after a few years of lucrative activity.

With a wish to put his education to good use, and his wife's full support, the couple left to Paris in 1954 to manage, what would be, a series of hotels. In 1971, they had been managing for 7 years,

Alfred Messai, a frequent guest in the second hotel, who initially specialized in real estate approached them. Messai had been interested in investing in the hotel business, similarly Drissi, who was a business acquaintance of his was open to invest in such venture, while being clear about remaining a passive owner. The two had found a great opportunity, and Messai was looking for a third owning partner of the hotel, who ideally would manage the property. A year later, in 1972, the Falcks, already in their early 50's became owners-managers of the Tessuc, at equal share of 33%. The same year, they welcomed their first and only grandchild, Florence, Martine's daughter.

Throughout their joint career, Odette and Jean worked hand in hand, supporting each other, both abiding by a strong policy of open communication, which sustained until the very last years of their lives. Jean was a well-built and imposing man with white frizzy hair, dark skin, from his farming days, and a roaring laugh that could be heard from the front desk. Jean was known to have strong values, honesty, dedication and taking chances were of great significance to him throughout his life and career. On the other hand, his management style revolved about the trust and availability he gave the staff, he was very vocal about the essential reciprocity of that trust. Odette was short-tempered and straight-forward, her small figure did not let anyone presume her fiery character; she placed great emphasis on hard-work, holding people around her to the same standards, especially her family members.

The Tessuc: A business roller coaster

Upon the 1972 acquisition, the ownership contract was informally and quickly drawn out in order to move quickly, not formally stating any buy-sell agreements between the parties. The Tessuc was a decrepit three-star hotel, in the center of Paris, with a 120 rooms capacity in a post-Haussmanian building with great renovation efforts were to be expected. While partially maintaining the hotel's operation, Messai's network and expertise allowed for the efficient renovation of the property in just two years. The Tessuc's premises were ideally located near all the large insurance and bank offices of the city, with marble walls and a large lobby onto a quiet street. Such a setting made it an attractive property

for professionals; however, its clientele at the time were less than attractive. During the day, the clientele was a normal mix of guests, yet at night, the marble walls would witness a cortege of «demoiselles de Nuit¹ » and their customers through the lobby, thus shifting the atmosphere into an undesirable nightly mayhem. During those times, the Falcks, while simultaneously in command, actively implemented «the clean up» strategy, as they called it; The course of action required long nights of patrolling, a baseball bat under the front desk at all times and an unloaded rifle in Jean's office. Although accommodating and winning the loyalty of new guests in these conditions proved to be increasingly difficult for the Falcks, their dedication was fully geared towards the success of the Tessuc. Up until that process was completed, Odette and Jean were very keen on keeping their daughter away from the hotel, as they had done for most of their hotel management career; Odette deeming it an «undesirable environment for a young lady ». Thankfully it was not their first time at the rodeo, and the Tessuc was unrecognizable after 8 months, thanks to the Falck's restless close supervision.

Business Family: an extended tribe

Over the years, guests, employees and suppliers had learned to genuinely appreciate Jean's smoothness and Odette's straight talk. A lot of them viewed the couple as an integrated part of the Tessuc experience, even when they started gradually withdrawing themselves from daily operations, and when asked about the hotel, they would describe the hotel in association with the couple. Loyal guests would consider the Tessuc a home away from home, mostly business guests, who would sometimes stay there 1 to 3 times a month, or for weeklong stays. The homelike feeling seemed to be emphasized by the attention to guest habits and preferences, which was mostly possible due to simple fact that when walking into the hotel, the same employees welcomed you, over and over again. The hotel's relatively low employee turnover, compared to industry's average, reflected the closeness of the work relations between the team members and the managers; the couple considered a lot of their employees as family

¹ Demoiselles de nuit : night ladies

and vice-versa. However, the trust and loyalty from both the majorities of their guests and especially their employees would have implications down the line. Overall, it appeared the couple was behaving and managing their business, as they did their family, and the hotel was the epicenter of their lives. As a matter of fact, their friends knew they were more likely to meet with them at the Tessuc than their actual home, at times finding their granddaughter, Florence, running around.

Martine: the independent only child

Since she was little, Martine always looked up to her parents, she did not see them as much during the early times of the family moving to Paris, as they often worked 7 days a week. However, during the time spent together, Jean and Odette were dedicated to raising a strong and independent child, addressing her as an adult and giving her as many social tools as they could for her to be autonomous and think on her own. Jean had an especially strong bond with his daughter; the couple did not want to have other children, hence they were not only very attached to Martine, but were very keen on teaching her the value of hard work as key to self-sufficiency in life.

Hence, Jean and Odette were proud when their daughter obtained her executive administration diploma, in 1970, and went on to work as the executive assistant to the CEO of a medium-sized firm for a little over a year. Two years prior Martine had married her high-school sweetheart, Hervé. She left her assisting position and together they started their own company, Gaudex in 1971 and business was good. Martine, who spoke fluent German thanks to her father, and English, was proficient at reaching new markets and bringing in new clients to the engraving company. Although she enjoyed growing her company, and she was successful at it, she loved challenges more and after her daughter's birth in July of 1972, she took on side-projects to diversify her experience while still supporting Hervé in his duties, as Gaudex's CEO.

A safekeeping inclusion

The administration had become a handful for Jean alone, in spite of his hotel school diploma and past experience. Regularly, the couple would discuss the business' direction, she suggested that, possibly, his industry grasp was not up to date, which may be the reason he struggled to strategize in capturing the changing environment value and hence he needed help. Odette considered she did most the «*heavy lifting*» by being very hands-on with operational management, yet she admitted she did not have the skills to significantly support her husband administratively. Indeed, he was crawling under piles of documents and paperwork. On top of that, Jean knew large amounts of receivables needed to be retrieved and reinvested in the business, the hotel market was evolving, and it was not as simple as 15 years ago. By 1974, Jean realized Messai's involvement in the Tessuc's administration would remain virtually inexistent, thus he could not rely on him for further help. In fact, Messai would spend more time on nagging and in « meetings » and making irreverent remarks to the staff rather than pulling his weight other than early refurbishment logistics. Consequently, Jean decided to look into the family for continuity, and offered Martine to join the Tessuc to work alongside him to ultimately become a manager, but he clearly expressed she did not have to join if she did not feel like it would be a satisfying experience for her. Years later, Jean disclosed he was relieved Martine accepted.

From a pure management standpoint, an external, yet informed, observer could identify a number of flaws in Jean's management, specifically administrative mismanagement, further creating inefficacies; which is exactly what Martine did. While she was not familiar with the business itself, nor the industry, this equipped her with the objectivity necessary to determine which reforms would be needed to improve the Tessuc's overall performance. Joining a business she knew little to nothing about, Martine realized would be a challenge. However, she knew it gave her an objective view of the current issues, which she would use her experience to overcome. While completing her operational training, she observed several inefficiencies in her father's administration as well as the shortfalls due to the lack of revenue maximization strategy. Firstly, she realized that the hotel did not accommodate any groups,

which were an abundant segment in the business area of the Tessuc, representing a substantial shortfall. Secondly, there was a great need for collection of receivables and systematic administration reforms. She admired her father for actually making the business profitable in the midst of mismanagement, he knew the business and met its operational management requirements well, but his office was filled with pending paperwork, and had no time to take a step back and evaluate the Tessuc's future needs.

Resisting forces

The patriarch's offer created long and heated discussions between Martine and Hervé. Their daughter had just turned 2 years old, their business was thriving, thus Herve struggled to understand her interest to join her parents at the Tessuc; « *Gaudex is only in its third year and you're doing such a great job. I never thought you would be into managing the Tessuc, especially with your parents! Hell, you barely spend any time there!* ». Nevertheless, she had shaped a transition plan for her departure from their company; she would hire and train her replacement. He was bound to accept, Hervé knew better than to argue with his stubborn wife, from experience, he knew she was a go-getter ever since they met in their teenage years. Hence Hervé continued to manage Gaudex on his own and turned out to be successful at it, branching out to large projects and growing exponentially in both size and revenue. Hervé and Martine planned that Hervé would buy back her equity in Gaudex in time, which he later did in 1985.

When Martine first started at the Tessuc in early 1975, she was faced with further resistance from certain staff members, who made very clear their dedication and loyalty laid with her parents, not her. Since she had been virtually absent of the hotel and only known as the bosses' daughter, Martine was going to be trained in all the operational departments, with a focus on the front desk. As she was not from the hospitality industry, Jean and Odette drew out a thorough training plan. A plan, Martine requested to be extensive for her to be able to fully understand the Tessuc's operations. Unfortunately, certain employees still viewed her as the 26-year-old boss's daughter, thus they trained her, very

reluctantly; some employees even refused to share certain training information with her, undermining her influence. During her first few months at the Tessuc, she would walk to her parents' office, holding her tears in at times, at other times, fuming rage and would break down in the privacy of her father's office. Feeling hurt that the certain employees, he trusted and invested in, would reject his daughter and impeded her acquisition of business knowledge, made Jean frustrated, he knew his wife and him could not teach her everything. He offered Martine to take the matter into his own hands, yet she repeatedly refused, telling her father doing that would sabotage not only her credibility but also undercut her chances for future acquiring authority. She knew she had to gain their trust over time by showing them she was equipped to lead them. Thankfully, Victor, a young EHL² graduate who proved to be a knowledgeable and competent man from the Basque country, shared an understanding with Martine. While he knew she was doing her best to learn, Martine appreciated his raw honesty and competence. It was clear to them the Tessuc needed to redirect its sales efforts, the processes of the front desk and reservation were to be revised, by making relatively simple adjustments. They formed a proficient team and were able to overcome deep-rooted inadequacies in the guest billing process. And although, Victor appeared to be a peculiar character, Martine learned best practices from him, such as: interact with guests, billing, and operational responsibilities. Victor left the Tessuc in 1976 as he was offered a manager position at the Hilton. Unfortunately, the Falcks regretted they could not retain him, but understood Victor's desire to grow as a hospitality professional, and the Tessuc couldn't provide him with the opportunities larger properties offered. Nevertheless, the Victor stayed in contact with the family over the years, visiting them yearly.

Fortunately, working with her parents proved to be as uncomplicated as Martine expected, they had shared with her all their knowledge of the hotel business and leadership accumulated over the years, and had naturally extended the communication policy to include their daughter. Odette was thrilled, after

²EHL: Ecole Hotelière de Lausanne is a hospitality management school, located in Lausanne, Switzerland. It is since its creation in 1893, and to this day, considered the first and best hospitality school in the world.

raising her daughter to see her succeed on her own, and be the strong-willed woman she grew up to be; she could see she used what they had taught her, but made very objective and independent decisions. They quickly treated her as an equal and valued her new eye on the Tessuc's vision.

Down the line

A few years passed of harmonious parents-daughter collaboration; business was better than ever, making the two external shareholders happy, dividend-wise. Martine had finally understood how the business had been running even with her father's inaccuracy; her mother had been pulling the strings all along. Day after day, she could see the subtle undercover role she was playing, influencing her husband, but also very skilled at facilitating delicate situations with staff members, and even Messai. In fact, Alfred Messai had become deadweight in terms of management, although he agreed Martine was a suitable successor to her parents, he never got along with her, and would act out by random rants directed either at her or employees during his visits, which had become increasingly scarce.

When they first started their joint-career, neither Jean or Odette had nurtured the hope that Martine would ever be involved, let alone take over the business one day. However, becoming owners had given them the possibility to consider this eventuality to really materialize, when Martine agreed to join the management team. As a matter of fact, when Jean and Odette sat down their daughter to first discuss her possible addition to the management team, they made it clear that if she was to accept, they would groom her, towards taking over and one day leading the family business. In the early 1980's, the couple started planning their retirement. After years of delegating more and more responsibilities to their daughter, Jean and Odette felt they could slowly but surely withdraw themselves from daily business and did not consider Messai to be a threat to the business harmony as he was satisfied with the dividends the Tessuc yielded. They would take longer vacations and weekends and quickly decided on buying a house, back in the small Southern village where they had met, to which they ultimately moved to in 1991.

Time for change

Throughout the years, the Falck family had developed good relationships with business owners on the street; some of them became family friends. Thus, when Martine heard through the grapevine that the city hall had approved of the urban construction project in January 1989, she became wary of the Sword of Damocles hanging over their heads. The district mayor confirmed the urban project was scheduled to start in 1993 during a public assembly on what the project would entail, and it was dreadful. The entire block was to be circled, with little to no car access to the front sidewalk door of the hotel, for over two years, with continued noise of heavy machinery. Martine understood that the Tessuc would not survive such change. Upon consulting her parents and friends in the hotel business, she came to two conclusions. Firstly, the Tessuc should be sold before risking losing the important potential value created by the current profit of the business, due to the construction. Secondly, the Falcks would have to act on a continuity plan they have been discussing for a few years now, acquire a new property that Martine would ultimately own and manage.

By 1989, Martine had already been managing the Tessuc for almost a decade, and had fallen in love with the hotel business and her team overall. Martine had cultivated a strong bond with the Tessuc team, something she had learned from her parents; interestingly the most reluctant individuals, to her initial authority, had become the most loyal and trustworthy elements. Although her parents were still sole owners of the 33% share they invested of the hotel, she had full authority on business matters, and often consulted Jean and Odette, to advise her on business matters. She felt at home there, being a ‘ship commander’ ever since the day she had launched her own engraving company with her now ex-husband³ was something she enjoyed and was proficient at. The Tessuc’s revenue had almost doubled since she fully took over its management and she had designed and carried out several developmental plans for the

³Martine and Hervé divorced in 1985. However they remained close, being candid advisors to one another while co-parenting Florence. They lived on the same block until 1991. The family sold Hervé’s ownership to the other owners, when he unexpectedly passed in 1994 of a heart attack at the age of 45. The company still operates to this day under the name ‘New Gaudex’.

family business. Martine always supported her parents' endeavors and always felt great pride in their strong sense of ethics, and there was open reciprocity in those conducts. She often credited them for her ability to solve problems and retain key employees, who in return were endeared to see she managed like her father and worked hard like her mother; yet there was something completely different about her. Hence, Jean and Odette fully supported the prospect of a new property, which they saw as their opportunity to complete transferring ownership of the family business by investing in a second hotel Martine would lead.

Martine knew that her Messai was a liability, especially since her parents left, and with the construction plan, she decided to act on protecting the family business, and by extension the partners' interests. Thus, Martine scheduled a meeting, prior to the yearly shareholders meeting to discuss the pressing matter and the latest Tessuc valuation. The family decided to appoint an external consultant, who knew the market and the Tessuc, in order to provide objective insights. After an entire afternoon of discussing potential solutions, considering the profit each party was expected to make, a consensus was reached; setting the maximum deadline to sell the Tessuc would be early 1991. They all agreed that two years was more than enough to yield multiple offers and ensure the profit for the sale would be maximized.

1989: Pressure building up

Mid-October of 1989, Martine pressed a large manila envelope to her chest, as she walked with her mother, both women were happy as they strolled down the Opéra Avenue. The envelope held the contracts to the new property Martine had just signed the purchase agreement for the Noailles; a 3-star hotel with 60 rooms located 500 meters from the Tessuc. Both of her parents thoroughly advised and supported her through the process of scanning properties and evaluating which opportunity would be best suited for her abilities. The Noailles would require a lot of work in renovation but the location was perfect, and not too far from the Tessuc, which would make commuting from one hotel to the next

convenient until it is sold, which the family thought would not take too long as offers started rolling in. The family had extensively discussed how crucial controlling ownership would be if Martine was to take on a new hotel, thus leading to her owning 70%, she acquired partly with a bank loan, while the remaining 30% would be evenly shared among her parents and a old-time friend and guest of the Tessuc, who had key business insights and network in the insurance and law industries.

Martine had successfully secured contracts with Tessuc's key suppliers for the Noailles, from the leverage of longstanding partnerships. Yet, she would regularly consult her father on how they could smoothly transfer the clientele from the Tessuc to the Noailles. Jean and Odette had been going through 4 different properties over their late career, they knew just how complicated it would be to change their guests' habits, but worked constantly on cultivating the loyalty from their longtime guests, while trying to stimulate guest loyalty from new ones. Thankfully, a substantial number of nonfamily team members of the Tessuc were willing to follow Martine to the Noailles. The Falcks knew how essential those staff members were for a successful property transition and recreate the homelike feel guests loved at the Tessuc. On the other hand, Martine was also considering how to integrate this paramount feature in a completely different functioning environment and infuse it into the Noailles' culture. She knew the pressure was on, to not only continue her family legacy but to clearly incorporate her own personal vision; *Hotellerie & Restauration*, a French industry newspaper which followed the transactions and openings of hotels, even wrote under the picture of the Noailles building: « *Guests appreciate coming back and seeing the same staff members welcoming them, as they walked through the doors with their luggage. Feeling at home away from home, was an experience the Tessuc team had perfected, over the 18 years under the Falck management. It is expected that the family will recreate this warm and personal touch in their new property.* »

Martine was fully conscious that the Noailles would be her biggest challenge and largest independent opportunity yet. She had invested all her savings in the new hotel, in order to maintain a strong controlling ownership, so that dilution would not be an issue in the future.

Taking on double duty

Martine was keen on preserving the social capital of the business but also her family, but she was alone. After her parents' retirement, they remained very supportive of her new project, taking an active role, in advising her and promoting the Noailles to their long-time Tessuc guests, but ultimately she would have to manage both at the same time, at least until the Tessuc's shareholding partners stroke the right deal. Florence, her daughter who was 16, was seriously considering hospitality management colleges; but Martine did not want her to feel obliged to join her upon graduation, she wanted her to pursue her own path, just like her parents had done for her. Therefore, she had surrounded herself with her own little advisory board, composed of her architect for the ongoing renovation, a successful lawyer and a couple others of industry specialists, all long-time friends. Unfortunately, she still knew the task at hand was massive: running the Tessuc while developing the Noailles, as it underwent renovation. The process was intricately tricky, although if the expenses were not so large, closing the Noailles during construction was the reasonable thing to do; but it needed to remain open so that they could smoothly get their loyal guests accustomed to the new premises.

The Letter

"Dear Martine,

How are you? How are your parents?

I know I have not called for a while, but it has been a difficult couple of years, so you must forgive my silence and probably wonder why I am now writing, but I do not see myself capable of saying this over the phone. I have lost my position at the property I was managing, last time we talked. Since then it has been a struggle to find another job around here. My mother has been helping me with money but I can't continue to demand that from her, and trust me I am not proud of myself. I don't even know how I will make ends meet next month. I know it is a long stretch, but I was wondering if you could maybe use your network in Paris to see if you hear of a job opening. You know my credentials, but I attached my resume

to this letter, just in case. Please, do not feel obligated to do anything, I am just reaching out to the few people I trust.

I sincerely hope you and the entire family are well. I hope the next time we talk I will have better prospects to share with you.

Thank you in advance for your help, my friend.

Kind regards,

Victor.”

Decisions, Decisions

Upon opening the letter, Martine realized she could kill two birds with one stone, she could most definitely consider Victor to come and work with her, she trusted him and knew how valuable his input could be to her new venture. On the other hand, she did not know exactly the reasons behind his professional fallout. Finally, she was keen on aligning Victor's interests with hers and the venture's; from past experience she knew ownership was not enough to ensure a key partner's commitment. Martine knew she had to know evaluate the implications of her decision to offer Victor a key position, she needed a trusted person to support her, but how will she ensure he would be fully invested and driven as she was for this new venture to succeed?

Teaching Notes

Overview

The following teaching note is a proposed format for class discussion, aiming at analyzing succession and continuity plan in a small family business as well as the roles of stakeholders evolving throughout this process. Eventually, students will evaluate the decision made by the 2nd generation owner-manager and recommend techniques to attract and retain a key nonfamily manager.

Target Audience

This case study is intended for both Undergraduate and Masters students, within the study of a family business course. The case can be use as a support to provide a support to better understand challenges of succession and integration of both family members and nonfamily members in the business.

Learning Objectives

1. Obtain a better understanding of the different implications of succession in a small family business within a transition from 1st to 2nd generation.
2. Address the evolution the mutual roles of exiting owners-managers and successors though the power transition process.
3. Evaluate the need for professionalization of management through the integration of nonfamily managers, as well as the ways to incentivize their performance.

1. Evaluation of continuity

For both questions 1.1 and 1.2, one may analyze the succession process as an organic continuity plan, rather than intentional succession planning. In order to better understand the latter nuance, students should recognize the rather simplistic structures of the overlapping subsystems of ownership, management and family, as modeled in the Three Systems theory of family business (Poza, 2010). It is

also recommended students are familiar with succession in family business; along with “blurred boundaries” (Poza, 2010) between management and family. Which, in this case, like in many family businesses, create inadequacies that prevent the parallel optimization of the larger system, the business.

1.1. What are the main pitfalls of succession identifiable in the case? Are they specific to the case or rather generic family business challenges?

Firstly, it is recommended to start the class discussion by encouraging students to broadly define the concept of succession in a family business. Family business management and ownership continuity can be viewed as a relay race, hence the following definition was selected: “The passing of the leadership baton from the founder-owner to a successor who will either be a family member or a non-family member; that is, a professional manager” (Beckhard & Burke, 1983).

Secondly, students will be able to recognize an example of blurred system boundaries in the case; the three subsystems have inherently different goals and standards (Poza, 2010), thus should, ideally, grow interdependently. The blurring of the subsystems’ boundaries is a typical flaw of family businesses. Similarly, despite Martine following a rigorous training to make up for not acquiring business knowledge in her formative years, her integration may be viewed as a result of nepotism (Poza, 2010); as selecting a family member successor is considered the first and only option here rather than searching outward for talent, that could potentially create more value than Martine for instance. Additionally, Martine being an only child may reinforce such perception, which can lead to classifying such behavior as one of a “family-first business” (Poza, 2010). Nevertheless, from the first-generation -Jean and Odette-, the successor’s integration is a clumsy attempt to mitigate both internal and external threats, here being underperforming management and a fast-paced environment. Specifically, Martine’s integration precedes a regression of Messai’s commitment to management, as he was not involved in the decision and later became dead weight rather than just a passive owner similarly to I. Drissi. Due to the addition of the daughter to the management team, the family and management systems overlap increases, while the ownership system remains unchanged. This integration should have been discussed between

owners (e.g.: assessment during a shareholders meeting) and ownership structure should have been somewhat revised to minimize inefficiencies, as owners were not consulted as far as the case goes.

In the light of succession, a dominant approach, divides the “leadership baton” into two entangled axis, power/management, and ownership (Barry, 1975), entailing the transition not being complete until both elements have been passed on to the next generation. With this in mind, when the transfer of power to Martine was effective, the parents should have considered pairing it with a transfer of ownership of the Tessuc; which would have further alleged her authority. Instead, the transfer of ownership of the ‘family business’ occurred upon acquisition of the Noailles.

The latter pitfall may have been intensified initial status quo of the ownership structure. Firstly due to the fact they did not have formal controlling ownership in order to jointly optimize the entire system. Thus, a transfer in ownership at the Tessuc did not complement the transfer of power to Martine. The main obstacle is the absence of liquidity policies, as no buy-sell agreements were drawn upon jointly acquiring the Tessuc in 1972, thus not allowing Jean to acquire more ownership of the business over the years. Such failure to formalize ownership prevented Jean to further secure family control over the business. Students may make the rightful observation that this situation fits within the virtual absence of business governance. However, the need for governance is all in all relative to a number of internal factors, such as the size of ownership group, the business and number of generations involved for instance (Pendergast, 2014). The case presents relatively simple structures, which do not necessarily require advanced governance. Eventually, the Tessuc’s structure led to increased agency costs down the line, specifically to resolve conflicts and facilitate consensus between owners and managers (Schulze et al., 2003).

As mentioned prior, students will be tempted to classify the Falcks in business, as being a Family-first business (Poza, 2010), no mention is made that Martine felt entitled to joining the business, which mitigates such perception. Nevertheless, the classic family business trap of searching inwards for talent, which can be perceived as nepotism by outsiders, resulted in resistance from stakeholders. Here,

Martine's integration created defiance and resistance from key nonfamily owner, spouse and employees. Interestingly, Dumas (1989) studied the father-daughter succession process, and observed that it is common for nonfamily stakeholders to exclude the daughter from decision-making processes, bad-mouthing her, and ultimately make her "the enemy", as mentioned in the "*Resisting Forces*" section of the case. Dumas (1992) and Mazza (2001) both insist on the necessity to openly communicate about the transition happening and possibly offer incentives to reinforce employees' collaboration. In the case, students may point that Jean should have clearly informed the staff that he is putting them in charge of Martine's training, and that until she has completed it she remains their subordinate, hence reinforcing the perceived fairness of the process. Eventually, such resistance, and lack of attempt to mitigate it, may have delayed her authority gain, which cannot be transmitted, unlike power or ownership (Poza, P.60).

1.2. On the other hand, list the strenghts inherent to the family business that may have been beneficial to its continuity.

Firstly, one can observe the successful fit between Martine and the Tessuc's needs is the result of a number of elements. Not only her differentiation from her father in terms of organizational development led to a positive impact, which translated in increased revenues and profitability. Nonetheless, Martine's commitment nature, and her predecessors' exit style have greatly contributed to a successful succession. Although the fit is unsure at the time of integration, students should be able to identify Martine's desire to join the business, thus classify her commitment as "affective", she 'wants' to join to the family business (Poza, 2010). Indeed, Martine does not 'need' to join, nor 'has to' join; as she has pursued an education to further launch an entrepreneurial venture; thus, it can be assumed that she carries a skill set that will be beneficial to the business. Affective commitment is considered the healthiest type of commitment and is a positive indicator of the successor's ability to align his/her personal goals with the ones of the business, thus facilitating succession (Poza, 2010). Finally, Martine being an only child alleviates any risk of sibling rivalry.

Additionally, such commitment to the family business is enhanced by the characteristics of the power transfer from Jean and Odette, which largely conform to "Ambassadors" exit style (Sonnenfeld &

Spence, 1989). Ambassadors tend to support the transition to the next generation, which conclusively allows the process to be completed (Poza, 2010). Namely here, by ensuring Martine was equipped to lead, delegating managerial responsibilities and slowly retrieving themselves to eventually become consultants and facilitators, they secured a smooth transition of power. On the other hand, we can observe that the self-concept of the Falck parents as 'first-generation owners-managers', is intertwined (as in most family businesses) to the business itself (Poza, 2010), as described by external stakeholders in the case –suppliers, guests-. Nevertheless, their willingness to step down and let their vision transform, and ultimately to sell the Tessuc alleviates any opposition from the owners-managers towards succession, which is a clear facilitator towards a completed process.

Eventually, the most crucial factor for a successful succession is the quality of the relationship between the exiting owners-manager and their successor (Chrisman et al., 1998). The quality of the relationship is defined namely by mutual support, respect and understanding, open communication and significant level of trust between parties (Handler, 1989). Thankfully, the family was consciously keen on fostering strong communication, and fully trusted each other. The open communication between the Falcks, is an indicator of the overall family harmony. Studies of family business succession suggest that family harmony has correlative impact on succession outcomes (Sharma et al., 2003). Such extensive communication between family members is more scarcely found in larger families without specific governance structures and system to promote it (Ward, 2004); in the observed business, this particular family trait may have facilitated the transmission of knowledge, passing of feedback. Interestingly enough one may relate this back to the back and forth between management and family subsystems in blurred system boundaries. More specifically how behaviors and values of a family in business infuse the business (Santiago, 1988).

1.3. Overall, can you deem the succession process satisfying? Mention by which criteria from both the case and literature one can do so.

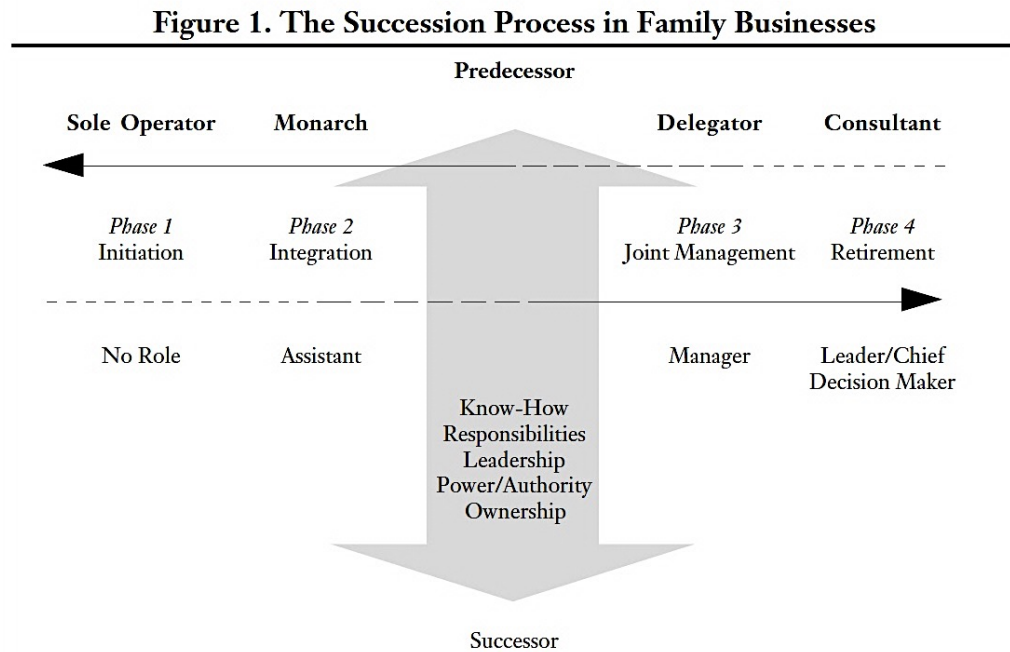
Generally speaking, one would evaluate the success of an enterprise, by simply evaluating the end results, hence generated revenue, profit and durability. However, more specifically to both the case and

the question, one will be likely to consider, whether or not, the continuity of the family control over the business is ensured as well as the firm's performance. Nevertheless, students should be directed towards identifying succession element in terms of satisfaction and effectiveness in order to gauge the succession's potential or achieved success. Literature suggests that for the succession of a family business to be "satisfying", several factors affect such assessment. Correspondingly, Sharma et. al. (2003), list those factors as follows: "the incumbent's propensity to step aside, the willingness of the successor to take over, agreement of family members to maintain involvement and the acceptance of individual roles in the succession process.". After acknowledging the factors prior, students will likely be able to make a direct link with specifics from the case, thus providing practical understanding of the notions. On the other hand, one may very well consider the effectiveness of the process, thus evaluating "the successor's appropriate preparation and positive relations and communication between incumbent and successor" (Sharma et. al., 2003). Combining those two dimensions, the inherent family and management characteristics displayed in the case leads the reader and students to conclude the transition of power and managerial duties, in other words the succession, was successful. To conclude, one must understand that the favorable outcome of a succession process of a family business is directly related with the elements described above, along with the satisfaction of the stakeholders involved, the fluidity of the leadership transfer and the health of the business (Venter, Boshoff & Maas, 2006).

2. Turning tables: How can one identify the interdependent roles of the family stakeholders evolve through the succession process?

The case depicts how the Falck family carried out their continuity plan, in spite of the apparent lack of formal planning. The question leads the discussion towards the reciprocal evolution of dynamics between existing leaders and their successor. Thus, analyzing how Jean and Odette (as an item) and Martine's roles evolve in regards to each other, as the succession unfolds, further illustrates how succession is a multi-staged process, and not an event in the life of a business (Friedman, 1987). Based on Handler's (1994) model of role adjustments in family business succession, Cadieux et al. (2002),

further allocated the roles of both predecessors and successor to phases of the succession process, as shown in the figure below :



Cadieux, L., Lorrain, J., & Hugron, P. 2002. Succession in women-owned family businesses: A case study. Family Business Review, 15(1), 17-30.

Firstly, in the *initiation* phase, Jean and Odette are “sole operators” of the business, from the family system, while Martine has *no role*; Further on, as Martine joins her parents, proceeding to the *integration phase*, during which her predecessors are labeled “monarchs”, entirely taking responsibility for management, as Martine takes on “assistant” duties. Interestingly, during that phase, Odette took on the role of “*introducer*” of Martine to participants of both internal and external environments (e.g.: clients, suppliers) (Houde, 1995; Kram, 1985). Students may note that such initiative was not directed towards the employees prior to Martine’s integration, and may view this extension as a recommendation, in regards to alleviate resistance, which was elaborated further in Question 1.1.

Between integration and the following phase, *joint-management* (or *joint-reign*), Jean and Odette, the “*delegators*” transfer business knowledge, through training, as well as gradually handing over responsibilities and leadership over time; to eventually complete a power/authority transition to Martine,

“*manager*” by then (Cadieux 2007). During this phase however, the Falcks should have paired the transmission described above with transfer of ownership. To conclude, the family in business enters the retirement phase, Jean and Odette slowly become “*consultants*” to their “*decision-maker*” daughter. In the light of empirical studies, the two last roles of supervision of their “*assistant*” daughter and later her consultant are the most crucial for the longevity of the family business during and after the completed succession (Handler, 1989). The retirement phase wraps up the core of the succession process. However, we can assume that the consulting functions of Jean and Odette are likely to go on until they pass, on business matters as long as their descendant(s) lead it; additionally we can easily consider this last role a lifelong instinctive one for parents.

3. Key outsiders

3.1. How do you evaluate Martine’s decision to bring Victor on as an executive? Do you agree with Jean’s recommendation?

Firstly, students can most definitely consider Martine’s decision as rash, as she does not know the reason Victor, whose abilities she trust, is out of a job, and one can recommend she further investigates whether he may have developed traits and behaviors that could be a threat to a potential business relationship (e.g.: theft in previous position, drug addiction, gambling...). However, as far as the information disclosed in the case, there are no specific reason why she would not want to hire Victor ; other than she has not worked with him for 15 years and her memories and perception may be distorted by her expectations.

From a general standpoint, Martine’s decision to hire Victor is an attempt to professionalize the management subsystem of the family business. There are several reasons why a family business would want to include professional management. Firstly, and this is the case here, Martine as the family leader, needs to face an increased number of managerial responsibilities, with the second hotel, while no family members are neither qualified or available to join her, which can be considered as a complex environment (Dyer, 1989). Moreover, Victor provides adequate skills in financial planning and valuable experience he acquired by working for larger hotel companies, taking on diverse roles, which the family

deems necessary to the business for an increased performance. The nonfamily manager's professionalism and competences is a prerequisite in the selection process for an executive position (Dyer, 1989).

Particularly, Martine's choice can be supported by the simple fact that Victor is familiar with not only the business and the industry, but also with the family. Thus integrating him, not only facilitates greatly the process of finding the right match for both the business and Martine; it ensures the understanding of the family culture, which is conducive to maximize a nonfamily manager's performance and loyalty (Poza, 2010). Eventually, Victor's mutual respect and trust towards Martine and the family is only illustrated by the fact that he reached out to her, acknowledging her network in the industry and past willingness and dedication to train and support her to implement adequate changes to the Tessuc when Martine first arrived.

3.2.What would entail an attractive compensation package for nonfamily managers, paired with techniques to retain them?

In the first place, the retention of nonfamily members is not solely reliant on financial incentives, such as salary and bonuses; although the latter must be benchmarked to market standards (Poza, 2010). Additionally, there is a risk that Victor may face a classic tale of family business: on one hand, being treated 'like family' is an advantage for mutual understanding, and assertion of his impact on executive decision-making; on the other hand, the attached psychosocial repercussions may prevent optimal management (Dyer, 1992). Consequently, for Martine, as the business leader must also be keen on: offering fair treatment, objective feedback/performance review according to clearly defined tasks (Poza, 2010). Nonetheless, this risk is mitigated by the fact that no other family members are involved in management anymore, as the parents are retired, yet remain owners.

Furthermore, incentives and rewards are key for Martine to ensure that Victor's interests will be aligned with the family owners over time. Considering the small size of the business, and the extent to which Victor would be involved, there are no apparent reasons to prevent him from owning some equity; since he will be involved with the books and virtually all vital information, if she abides by her

transparency policy, there is nothing to hide. However, it is advised to offer him restricted access to equity in the form of phantom stock⁴. The choice of phantom stock over plain equity is simply explained by the agency costs generated to conceive protective buy-sell agreements in the ownership contracts, (as it should have been done at the Tessuc in the first place), along with the additional costs of managing governance, due to an outsider's presence in the ownership group, in comparison with just family. Additionally, it protects the family control and avoids dilution of power over the firm. It is recommended to offer phantom stock at the value of an actual share, with actual payments of dividends over performance of the company, as any share would/will for family owners, yet contingent to employment at the Noailles. The main benefits of offering phantom stock to a key nonfamily manager, like Victor here, is to prompt him to « think like an owner », over a long-term perspective, while avoiding dilution of family control over the ownership (Ward, 2004).

Epilogue: What happened.

Victor joined Martine at the Noailles in early September 1990. Upon explaining the reasons he was let go from his position (which were personal, but will remain undisclosed in this case study) Martine considered they posed no threat for a professional partnership between them to exist. The pair worked harmoniously together for 23 years thereafter, and Victor was figuratively adopted as part of the small Falck family throughout the course of their partnership.

In December 1990, Florence gave birth to Justine. She had just graduated from high school and wanted to work in hospitality, and consequently entered the M  d  ric Paris Hotel School the next year, with Victor as her mentor. In January 1991, Martine was diagnosed with cancer, and Victor proved to be a crucial element of both the business and family, as he managed successfully both hotels until the Tessuc was sold in November of 1991. Subsequently, in 1996, Victor trained Florence as she joined him and Martine at an entry-level position at the Noailles. He, who never had children, considered Florence

⁴ Sources to define whether phantom stock was introduced in the corporate world before the case or not were not clearly available. However, online sources about phantom stock date back as far as 1991, we can assume it was an available option to Martine in 1989 yet relatively unknown at the time, especially by small business

his niece. By then, Martine had offered phantom stock to Victor, which he refused with the simple explanation to Martine: “I do not need you to give me anything more.” He later on went on to buy the 15% of the Noailles equity owned by Jean, which he donated to Florence, who took care of him until he passed in January 2013.

Today, the Noailles is still run by Martine and her daughter Florence; it grew into a successful 4-star hotel and is in the midst of a new transition. Justine, Florence’s daughter mentioned in the case, grew up at the Noailles, but was encouraged to follow a different path, to explore the world and gain experience elsewhere. Nevertheless, Justine wished for nothing else than a career in hospitality management, which she pursued by working for different large properties. Martine is preparing her retirement, as she passes the baton to her daughter, Florence, while planning for the integration of the fourth generation, Justine, who is set to join the Noailles upon obtaining her masters degree in February 2017.

Conclusion

To conclude, the observations made for the production of this work project, as well as the collection and analysis of the supporting theoretical data, suggests that there is a growing need for succession policy-making in family businesses. This conclusion comes as a mere remark; however, it is factual that succession remains one of the most destructive challenges for both entities: the family and the business. This need is emphasized as family businesses represent the backbone of most of today’s economies due to their large number, variety of scales and industries in which they operate in. To this day, only guidelines and external consulting are available to business-owning families, yet those are usually occulted by small and medium sized firms for a number of reasons. Eventually, the inherent characteristics, that proffer family controlled businesses their competitive advantage, entail that the governance work of strategizing successions remain a case-by-case enterprise.

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